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## PROPERTY TAXES CUT ACROSS-THE-BOARD:

Property taxes will be cut for all property owners next year as a result of legislation adopted during the 2002 special session. Under the new law, the state will assume financial responsibility for 60 percent of the school general fund property tax, the largest single component of property taxes.

In the chart, the left-hand column shows how property taxes for the different types of property would have changed if nothing had been done. The right-hand column shows the estimated changes based on the law enacted in June by the Legislature. As you see, all types of property will benefit from the property tax overhaul.

The reduction for business property is greater because its share of overall property taxes increases between statewide reassessments, while other types of property remain fixed.

	Before HB 1001	After HB 1001
<b>Agriculture</b>	+ 5.1 %	- 13.2 %
<b>Homeowners</b>	+ 13.5 %	- 12.8 %
<b>Commercial</b>	- 8.2 %	- 21.4 %
<b>Industrial</b>	- 12.8 %	- 26.3 %
<b>Utility</b>	- 37.8 %	- 28.8 %

**INSIDE: NEW LAW TO BRING INVESTMENT, JOBS TO INDIANA**

# LAWRENCE BORST

## SUMMARY OF 2002 LEGISLATIVE SPECIAL SESSION

### Property tax cuts, business tax overhaul, future spending controls earned vote for HB 1001

Substantial, meaningful and permanent relief for property taxpayers, an overhaul of business taxes to attract new jobs to Indiana, and spending controls designed to prevent future budget crises combined to earn my vote in favor of House Bill 1001 during the recently concluded legislative special session.

I continue to believe that state spending should be cut or postponed more than Gov. Frank O'Bannon has ordered to date. However, the bill's positive aspects for homeowners, farmers and business operators and long-term benefits for the lagging Indiana economy outweighed the governor's demand for additional funding to prop-up the state budget.

As you are aware, property owners were facing higher tax bills next year resulting from court-ordered changes to Indiana's property assessment method. Although property taxes are determined locally and vary considerably across the state, homeowners' property tax bills in 2003 are estimated to average 26.3 percent less, taking into account the expected increase from reassessment.

Property tax bills in 2003 for agricultural land should be reduced by an average of 18.3 percent after reassessment. Commercial and industrial property taxes also will be cut noticeably by the new law.

Creating new jobs for Hoosiers was a high priority for state lawmakers. HB 1001 calls for the outdated inventory tax to be phased-out in no more than five years (sooner if county officials so choose). The measure eliminates other business taxes, increases the state-funded tax credit for research and development, and establishes a new tax credit for venture capital investment. All of these are designed to enhance our ability to retain existing jobs and attract new jobs to Indiana.

Also included in HB 1001 is a first-ever state spending cap to help prevent a repeat of the state budget crisis. Future state spending must not increase faster than the average growth in personal income. The cap applies to all major budget categories, unlike weaker spending cap versions.

To achieve these goals, HB 1001 increased the state sales tax from 5 percent to 6 percent, raised the cigarette tax from 15.5 cents per-pack to 55.5 cents per-pack, and increased the business adjusted gross income tax modestly. In addition, Indiana's nine riverboat casinos will pay higher taxes.

Gov. O'Bannon sought \$3 billion over the next three years to erase the state budget crisis. The legislation provides \$1.8 billion. The balance will have to be made up through budget cuts, an increase in revenue brought about by an improving state economy or other means.

The bill was not written exactly as I would have liked, but give-and-take is part of the legislative process. Homeowners will be protected from double-digit tax increases and Indiana will become a more attractive place for businesses to create jobs. In the end, those were the best reasons for me to vote in favor of HB 1001.

Sincerely,

Lawrence M. Borst  
State Senator



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# SENATOR BORST'S SPECIAL SESSION UPDATE

## Homeowners, farmers, business operators to see lower property taxes

On the 2nd day of May, 2002, the Governor of the State of Indiana, announced his decision to recall the Indiana legislature to address some unfinished business. **The Governor specifically asked the legislature to address three subjects:**

1. **Provide more money to fund budgetary requirements** for the rest of 2002-2003, and to look ahead for the biennial budget beginning July 1, 2003.
2. **To protect the homeowner** from greatly anticipated property tax increases due to the ongoing reassessment.
3. **To restructure the Indiana system of taxation**, especially in the corporate area, to once again make Indiana competitive in the world of economic development.

There were few that agreed that a special session of the legislature would be any more productive than the failed regular session that had ended on March 14. I was one of those that counseled against a special session. No legislator, that I know of, did advise a regrouping. Two different, and distinct, political philosophies were prevalent in the makeup of the two houses. Democrats in control of the House, Republicans in the Senate. Be that as it may, these two factions did see eye to eye, that the State of Indiana was in a precarious financial and economic competitive position, and that "something" needed to be done.

The final work product that was endorsed by a majority of both houses and by the Governor, is that "something". House Bill 1001ss is a very fine piece of legislation that will benefit our state, for years to come. The fact that it took 41 days to be accomplished, when the Governor only called for a 40-day session is immaterial. The Governor's office misread the statute and miscounted the days and the calendar.

Indiana is under a Tax Court order to streamline its method of assessing real property. The court declared, several years ago, that any new reassessment must consider the "market value" of that real estate. Farm land did not have to comply. The main problem in compliance is the shifting of a greater burden of assessment to the homeowner. The basis of the court decision was that assessment practices have not been consistent, the home-

owner has been paying less than is fair, and that other real property owners have been paying more than their share. In order to comply with the court decision, the "shift" back to the homeowners, would cause the homeowners to pay an additional 23 percent. This assessment shock, was felt to be intolerable and unacceptable. The legislators also understand that allowing such a huge increase in property taxes, would be political suicide. The "shift" problem was rectifiable and was attended to.

Most of the revenue collected from the penny increase of the sales tax will be applied to reducing the property tax on real estate and to provide for homestead credits and for property tax replacement credits. On the average, instead of homeowner's taxes increasing by 23 percent after the new reassessment, the property tax liability will be reduced by about 12 percent of the current level. In the future, the state will be assuming at least 60 percent of school general fund costs. This amount varies from school to school, but, about 18-20 percent of the total tax bill will be eliminated. Each homeowner will receive an additional 20 percent homestead reduction. Each property owner, including the homeowner, will receive an additional 20 percent property tax replacement credit. The homeowner's base assessed gross value will be given a \$35,000 homestead deduction before all of the credits kick in.

The individual income tax rate of 3.4% was unaffected and not increased. The agriculture community does receive a tax break on real property, as does the small businessman.

The inventory tax will be a thing of history after four years. Those that have inventory will benefit with a redefinition of inventory (raw materials and work in progress for out-of-state shipment are exempt.) Each county can forego inventory assessment at any time, and have been provided a means to make up any loss, if they so wish.

The corporate gross and the supplemental net corporate tax are also repealed. The AGI is increased to 8.5 percent. There is no new supplemental corporate, nor is there a new franchise tax. Subchapter S and other pass through corporate entities remained taxed at previous levels.

Research and development in Indiana is being encouraged. New research will create new jobs, and, recognizing this in our restructuring efforts, may bring new jobs to Indiana and keep those that we now have.

Indiana will once again be competitive in the job development market. We can say that inventory taxes are gone. No corporate gross tax. We like research. Indiana has lost over 100,000 good jobs in the last two years. These were people paying taxes to the state. The loss of these taxpayers is the main reason that the state is running a deficit. This bill, if properly implemented, can recoup some of the losses. Restructuring cannot do it alone--the present administration must be more aggressive and innovative. The legislature has done its part, now the administration must produce.

Since the first of this year, Indiana's income is down over last years income. This money will never be recaptured. The budget that was passed in 2001 was too large and was not well thought out. The income expectations, to match the large budgetary appropriations, was unobtainable. I did not support that budget and voted against it. The Governor has made some necessary reductions, but must make more. Even if the economy perks up this next twelve months, further reductions are a necessity.

A portion of the strategy in the Senate Finance Committee was to provide only a small portion of the budget deficit by increasing the tax load on individuals. The Governor must now do his part. Revenue collections from the increase cigarette tax and the increased taxes on riverboats will primarily go to supplement revenues that will allow the present budget to work and to help fund an adequate budget for 2003-2005.

Severe budgetary control measures were included in the new legislation. Both the state and the local government will be limited on the amount of the yearly budget increase. This will help control the ever-increasing property tax rate.

As a measure to reenergize the economy, the three cent gasoline tax increase (beginning in 2003), is looked on, as one way to improve the state's infrastructure, if we are to be competitive. Local and state government cannot meet the needs of our transportation requirements.

All in all, I personally believe that the recent special session did produce a more than adequate piece of legislation. The mandates that were initially made were reached. New budgetary revenue, homeowner property tax protection, restructuring of corporate taxes all did happen. The legislature will reconvene next January. Its focus at that time will depend on the economy. If we are still in a recession, new budget cuts or new revenue will be in order. If we are out of the recession, property tax relief has occurred and the mission of 2003 will be more focused on progress for the State of Indiana.

### HOW WILL THE NEW LAW AFFECT COUNTIES?

**There will be a county revenue sharing plan to use excess riverboat gaming profits.**

Johnson County: \$728,504  
Marion County: \$5,440,932

**The increased cigarette tax will provide a yearly increase for counties.**

Johnson County: \$458,075  
Marion County: \$2,679,374

### WHY WAS A SPECIAL SESSION NECESSARY?

This special legislative session convened on May 14, and **legislators worked on one bill for 40 days** until a proposal was approved on June 22 that best represented the concerns of all Hoosiers.

Despite much of the hype, the special session was streamlined so that it cost taxpayers very little extra to ensure a fair and balanced tax restructuring plan. In fact, **the additional cost for the 40-day special session was similar to that of 4 regular session days**, and Hoosiers benefited greatly from the added focus that was given to the new plan.

For more information, visit the General Assembly Web site at [www.in.gov/legislative](http://www.in.gov/legislative)